

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 EUR-12 ISO-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01
DOE-15 AGR-01 /124 W
-----020962 151130Z /23

R 142051Z APR 78
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 0797
INFO AMEMBASSY CARACAS
AMEMBASSY GUATEMALA
AMEMBASSY LONDON
AMEMBASSY MANAGUA
AMEMBASSY MEXICO
AMEMBASSY SAN SALVADOR
AMEMBASSY SANTO DOMINGO
AMEMBASSY TEGUCIGALPA
USDA/FAS WASHDC

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E.O.11652: N/A
TAGS: EAGR, ETRD, CS
SUBJECT: COFFEE: OTHER MILDS GROUP MEET IN SAN JOSE

REF: SAN JOSE 1587

1. FROM DISCUSSIONS WITH COSTA RICA'S COFFEE OFFICE AND
PRIVATE TRADE CONTACTS, EMBASSY HAS LEARNED THAT DECISION
TO MAINTAIN MARKET CLOSURE BY "OTHER MILDS" PRODUCERS MEET-
ING IN SAN JOSE ON APRIL 10 SURPRISED SOME OF THE DELEGATES
WHO HAD THOUGHT THE MARKET WOULD BE REOPENED. ONE WELL
INFORMED COSTA RICAN PRIVATE SECTOR REPRESENTATIVE, WHO
BELIEVES THAT RECENT EFFORTS BY MILDS GROUP TO RESIST
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MARKET PRICE TREND ARE FUTILE, EXPRESSED DISAPPOINTMENT
THAT MEETING DECIDED TO CONTINUE SUCH EFFORTS. ACCORDING
TO THIS SOURCE, MOST DELEGATES BELIEVE THAT OCTOBER
DECISION TO CLOSE MARKET DID HAVE AN EFFECT ON MARKET
PRICES, BUT THEY NOW RECOGNIZE THAT MARKET TRENDS ARE
TOO STRONG TO BE INFLUENCED BY ACTIONS OF OTHER MILDS
GROUP. IN RETROSPECT, THEY NOW FEEL THAT OCTOBER

DECISION SHOULD NOT HAVE BEEN TAKEN BECAUSE IT HAS ENGENDERED UNREALISTIC EXPECTATIONS AMONG GOVERNMENT POLICY MAKERS THAT THE MARKET CAN BE INFLUENCED RELATIVELY EASILY. THUS, GOVERNMENT SUPPORT FOR MARKET INTERVENTION EFFORTS ARE CONTRIBUTING TO THE PRECARIOUS MARKET POSITION OF THE OTHER MILDS GROUP AT PRESENT. THIS POSITION IS ONE OF LARGE SUPPLIES OF UNSOLD COFFEE WITH THE SEASON PAST THE HALFWAY MARK AND BRAZIL'S ABUNDANT NEW CROP NOW BEING PICKED. STATISTICS PROVIDED BY DELEGATES ATTENDING THE MEETING SHOW BAGS OF COFFEE SOLD AS FOLLOWS (SOLD AMOUNT AS PERCENTAGE OF TOTAL AVAILABLE FOR SALE SHOWN IN PARENTHESIS): COSTA RICA, 946,764 ,70 PERCENT; EL SALVADOR, 680,234 (33 PERCENT); GUATEMALA, 923,075 (71 PERCENT); HONDURAS, 498,709 (49 PERCENT); MEXICO, 800,900 (50 PERCENT); NICARAGUA, 330,000 (60 PERCENT); DOMINICAN REPUBLIC, 614,206 (73 PERCENT); VENEZUELA, 100,000 31 PERCENT); AND THE EIGHT COUNTRY TOTAL, 5,064,700 (54 PERCENT).

2. ACCORDING TO TRADE SOURCES, THE GROUP'S PRICE OBJECTIVE IS \$1.81 PER POUND DELIVERED AT NEW YORK, A PRICE MIDWAY BETWEEN PRICES TODAY FOR BRAZILIAN COFFEE AT \$1.70 PER POUND AND COLOMBIAN AT \$1.93 PER POUND. SOURCES REPORT THAT THE ONLY COSTA RICAN COFFEE MOVING NOW IS THAT WHICH WAS CONTRACTED FOR SALE BEFORE MARCH 10, AND THEY BELIEVE THAT THE OTHER "MILDS" MEMBERS ARE ALSO ABIDING BY DECISION TO KEEP THE LIMITED OFFICIAL USE

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MARKET CLOSED. NEVERTHELESS, THESE TRADE SOURCES FQUBTED THAT ANNOUNCEMENT OF OTHER MILDS GROUP WOULD HAVE ANY SIGNIFICANT IMPACT ON COFFEE PRICES AND ARE BRACING THEMSELVES FOR A FURTHER DECLINE IN COFFEE PRICES. THE GROUP EXPECTS TO MEET AGAIN IN SEVERAL WEEKS, UNLESS IN THE MEANTIME THE MARKET "CRASHES" -- A CONDITION THAT WOULD CALL FOR AN IMMEDIATE REUNION OF THE GROUP.

3. COMMENT: COSTA RICA AGREED TO HOST THE CONFERENCE LARGELY DUE TO GOCR DESIRE TO CONTINUE TO "PLAY BALL" WITH THE MILDS GROUP. COSTA RICA HAS BEEN ATTENDING MEETINGS OF THE MILDS GROUP DURING THE PAST DVERAL YEARS, BUT HAS ALWAYS BEEN A FOLLOWER RATHER THAN A LEADER. ONE LOCAL TRADE REPRESENTATIVE REPORTS THAT COSTA RICA IS IN A RELATIVELY FAVORABLE POSITIOMKWITH 70 PERCENT OF EXPORTABLE SUPPLIES ALREADY SOLD, AND THAT THE COSTA RICAN GOVERNMENT IS SUPPORTING EFFORTS TO FIRM UP THE MARKET ONLY IN ORDER TO PLACATE THE COFFEE COOPERATIVES WHICH HAVE SOLD ONLY 46 PERCENT OF THEIR EXPORTABLE SUPPLIES. THIS COMPARES TO EXPORT SALES OF 80 PERCENT OF THE EXPORTABLE COFFEE HELD BY

THE INDEPENDENTS. IT WAS EXPLAINED THAT THE POLITICALLY
POWERFUL COOPERATIVES MARKET ABOUT ONE-THIRD OF THE
CROP, WHILE THE INDEPENDENTS EXPORT ABOUT TWO-THIRDS OF
THE COFFEE.

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